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A Case Study of an Outsourcing Decision
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A Case Study of an Outsourcing Decision Project in a Large Public Organization

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Abstract

Phases in an outsourcing decision project are presented and critical issues are identified. First, there were different definitions of hosting and these different definitions made it unclear what the project was about and thereby the outcome of the project became unclear. This affected project commitment, project outcome project management, and project costs. Second, there were unclear descriptions of how the hosting was made in the organisation. The study suggests that had there been a clearer and more concise description of what the project was about and how the hosting was made a lot of the difficulties could have been avoided.

Keywords

Outsourcing, Sourcing Project, Outsourcing Decision, Case Study

INTRODUCTION

Information and communication technology (ICT) sourcing decisions, and management and governance of software applications receive high attention in organisations. The top ten ICT related problems identified by the IT Governance Institute (ITGI 2004) reveals that. Also the Chief Information Officers magazine (CIO.com 2004) says that 30 per cent of the top challenges facing Chief Executive Officers (CEOs) directly involve ICT. However, the attention is often on, for example, governance or management, and not on solving problems related to more than one of the concepts at the same time. But, when studying the reported top challenges they seem to be closely related to how organisations host their software applications, and in that way they are related to ICT outsourcing. Quélin & Duhamel (2003) defines outsourcing as “*the operation of shifting a transaction previously governed internally to an external supplier through a long-term contract, and involving the transfer of staff to the vendor*” (ibid., p. 648). This definition says that outsourcing is about moving functions that already are present in the organisation and that it is a long-term contract. The literature suggests that a major outsourcing decision process is a complex process. According to Boonstra (2003) there has been little explicit research on the process of how managers and organisations decide when buying, developing and/or implementing software applications. From Dibbern et al.’s (2004) review of the outsourcing literature it can be concluded that research on *outsourcing decision-making processes* is sparse.

There are a lot of outsourcing research focusing *why outsource*, *what to outsource*, and *which provider to outsource to*. There are also quite a lot of research on the *how* question, that is, on how to outsource. But the main bulk of this focuses the implementation phase (Dibbern et al., 2004). Not many studies focus on the *how* in the decision-making process, that is, a focus on how the outsourcing decision is made or should be made—for some exceptions, see Loeff (1995, 1998) and Udo (2000). The aim of this paper is to contribute to research about outsourcing by describing an outsourcing decision-making process and its different steps and thereby the different decisions that were taken during the process. From the description some problems are identified and the reasons for why these problems arose are discussed. The paper focuses on the decision-making process and suggests how to avoid identified decision process problems so that the outcome (the decision) of an outsourcing decision process can be improved. Simon (1977) says that there exists too much focus and research on the outcome of the decision-making process. He argues that research focussing on the decision-making process and its stages would be more fruitful. Our empirical research on *how* an organisation handles the outsourcing decision process fills a gap in the existing outsourcing research.

Another standpoint of why it is interesting to study an outsourcing process is according to Ray et al. (2004) that a lot of studies have examined the decision-making process and related that to overall firm performance. This means that the studies have focussed on firm performance and not how firm performance was affected by the different decisions in the process. This study attempts to make a difference by describing the different steps in the process and relate them to each other. The study can therefore be compared to Ray et al.'s (2004) motive for focussing on a specific business process. They claim that an organisation may be good in some processes, average in other processes and perform badly in yet other processes. This means that if the study is focussing on the organisations overall performance the research will not show the net effect of a specific business process. This means that the dependent variable is not overall firm performance. Instead it is on the level of a specific process. Ray et al.'s description of breaking done the overall firm performance in a set of business processes can be used when studying sourcing decisions. By breaking done the outsourcing decision process in a set of stages it will be easier to describe and explain how the decision was made and what the outcome of each stage in the decision-process became as well as the outcome from the entire process. And this is the aim of our paper.

The paper is organised in the following way. Section 2 describes the case organisation and the outsourcing decision project. Section 3 presents and discusses some learning points. The last section summarises the lessons learnt from the case and suggests further research.

MELO'S OUTSOURCING PROJECT

This section describes a major outsourcing decision project in an organization called MeLo. MeLo is a Swedish large public organization focusing on Messaging and Logistics (MeLo). The outsourcing project was one mean of a large organization-wide initiative, called EffectIT, to increase the effectiveness and efficiency of the organization's ICT, including ICT use, governance, management, and operations. The board of the organization decided to launch the EffectIT initiative and project; and the outsourcing project became one part of this initiative. The organisation of EffectIT is depicted in Figure 1.

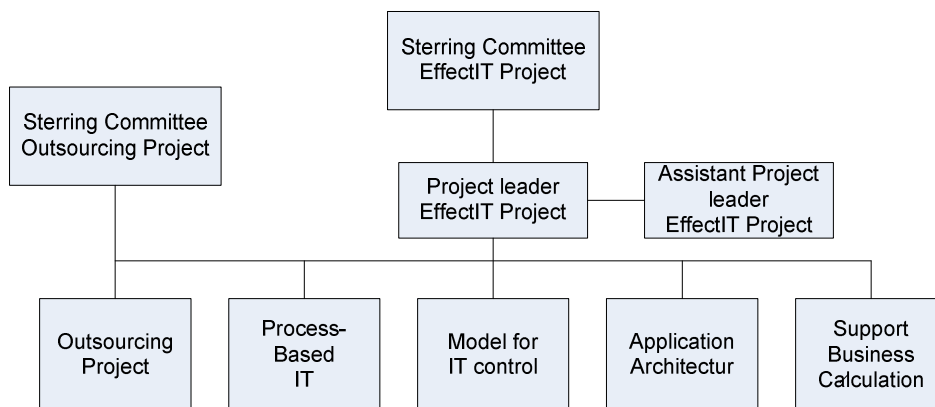


Figure 1: Organisation of the EffectIT project.

The figure shows how the overall project was structured and organised and what part the outsourcing project had in this initiative. Before describing the outsourcing project we briefly describe the case organisation. The data about the organisation and the project comes from semi-structured interviews with the CIO for the IT-unit and a Chief Controller for the case company (MeLo). Interviews were tape-recorded and transcribed. Additional data comes from annual reports from 2001 to 2004 and information on MeLo's website. Data also comes from an internal report about the outsourcing project. All data has been analyzed by using a content analysis (Krippendorff 1980). The analysis has been done by comparing statements and what has been written in documents. The aim of the analysis of the data was to generate a description of the decision making process using different sources. The aim of the analysis of the generated description was to identify problematic and critical issues in the different steps of the decision making process and to link an issue with the step where the activity leading to the issue occurred.

The Case Company: MeLo

According to MeLo's CEO it services are of world-class. In 2004, MeLo had approximately 35,000 employees and a turnover of 3 Billion Euro. The mission of MeLo is "to connect people and businesses by delivering its services reliably, cost-effectively and on time. MeLo aims to create outstanding customer and business value by combining conventional and electronic mail." The vision is expressed in the following way: "the vision is to be the sought-after hub of the wheel that keeps Sweden rolling, and the logistical network that connects the Nordic region."

The 2004 annual report states that MeLo should "... extract the effects of approved ICT cutbacks in a move to create efficient and reliable processes. In 2004 MeLo extracted the earnings effects of outsourcing, and began the implementation of company-wide methods and procedures. The goal is to improve the efficiency of the ICT operation." MeLo's mission, vision, and the above statements indicate that MeLo views ICT as critical for its performance and competitiveness.

In 2000, MeLo made a major restructuring of its entire organisation. (This was before the outsourcing project started in 2002.) The new structure builds on business units (BUs). In 2001 there were six different business units: Market communication, Administrative communication, International mail, Outsourcing, eCommerce and logistics, and Individual. In addition to these BUs there were three units acting as support units: IT, Production, and Support. The IT unit had the role of facilitating the migration of service development towards integrated solutions. This unit managed MeLo's electronic services and internal information systems. The unit was localised at four different places and had 650 employees. This was the situation before the outsourcing project.

In 2003, MeLo made the decision that it should use an external partner for its hosting of ICT. The decision to outsource was made after an investigation and an outsourcing project that started in 2002. The project was completed in 16 months and it resulted in that a contract for six years were signed with a major provider of ICT. The contract meant that 180 employees had to change employers. It also meant that a major part of ICT resources were moved to the provider. The outsourcing decision-making process was conducted as a project, which consisted of the following steps: 1) *request for information and invitation of tender*, 2) *tender invitation*, 3) *evaluation of tenders*, 4) *agreement proposals and due diligence*, and 5) *negotiation*. These steps come from the original project plan. A timeline for the project is shown in Figure 2. The project will be described using the five steps as headings.

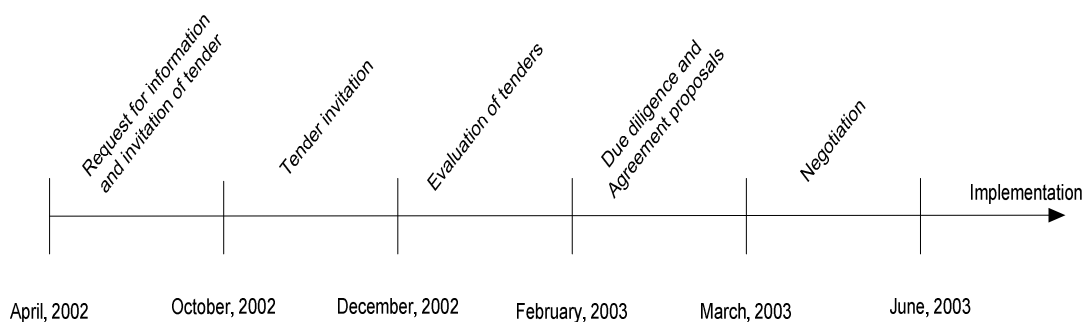


Figure 2: A timeline for the outsourcing decision project.

Request for information and invitation of tender

This step consisted of three main activities: 1) *producing the request for information, distribution and evaluation of the information*, 2) *producing a business case that described an outsourcing case*, and 3) *the development of a tender invitation*.

The activity of producing the request for information, distribution and evaluation of the information was not in the project plan from the start. It was suggested from the project leader and the steering committee for the outsourcing project that it would be wise to do this in order to have knowledge about the outsourcing market. The aim was also to have useable information in order to produce a more clear invitation of tender. The result from the request of information did not really fulfil the objectives. The information was not clear enough to be useful in the development of the invitation of tender step. However, it provided that step with questions that were useful. The request for information was distributed to eleven potential contractors and five potential sub-contractors. This activity guided the distribution of the invitation of tender.

A business case was developed. The reason for developing the case was that it would act as a foundation for the decision that was necessary to make in the executive committee. The business case was developed based on an analysis of the effects of outsourcing but also how the outsourcing alternative could be formulated. The method used in the analysis was to investigate what actions the organisation needed to take if it should continue with the internal handling of its ICT and what actions an external provider probably would take to make ICT more effective. In the business case it was concluded that the actions would probably be the same, but it would differ in the time plan, costs as well as in the effects of the actions. The decisive reason for the EffectIT steering committee to suggest outsourcing was that it judged the probability to succeed with decreasing the costs was more likely in the outsourcing case. There was then a decision in the executive committee that the project could start the process of outsourcing.

In parallel with the two above activities, the development of the tender invitation was done. This activity consisted of collecting facts regarding existing ICT resources. This was more time demanding than calculated. The reason was that an exhaustive picture of existing ICT resources did not exist. To be able to develop this it was necessary to contact personnel in different occupations such as operational personnel, responsible for different systems, owner of different systems, personnel responsible for services but also personnel responsible for the systems and the owner of the systems at different units. The documentation was in some cases very good but in other cases there were no documentation at all. In the investigation it was found that the differences between different applications were high, meaning that every application was unique with unique demand of service level and management. In this stage of the project it was expressed that the hardest thing to do was to judge the future demands of ICT in the organisation. At this time it was also found out that a lot of employees had negative feelings about outsourcing and did not like the idea of outsourcing. To handle this situation a lot of efforts were made in the form of, for example, running workshops with the units most negative to outsourcing. The consequence was that the information needed for the development of the tender invitation was not satisfying and the project became delayed. Due to the negative feelings, the demand for information for the project was not high-prioritized any longer. The main objection against outsourcing was that outsourcing would increase difficulties with developing the services the different units deliver. But, also that it could affect customer data security negatively. The ICT unit's employees disliked the idea of changing employers. This meant that the project was delayed and a decision was made for a new completion date for the project. The sprawling structure that existed in the ICT infrastructure in the organisation was to some extent agreed on in this phase and the development of the tender invitation sorted out this problem. However, it was hard to know if the requested service was on the right level. A major work was made in finding a model that would describe how the hosting should be done so that the external provider had encouragement for consolidation of resources and at the same time give MeLo high flexibility and a possibility to only pay for the capacity it used. In this work there were some problems in finding a useful model. The model MeLo selected was later found not to be possible to implement. MeLo bought a measurement tool for measuring used capacity on its servers. However, the measuring did not start early enough for making it possible to use as a base in the invitation of tender. This resulted in that the invitation of tender become somewhat unclear and raised some misunderstandings. The quality in the invitation for tender was secured by a reference group consisting of the owner of the ICT infrastructure, an ICT manager and the employee that had the responsibility for the hosting at that time. The final invitation of tender was a document of about 700 pages that was distributed to six possible service providers.

Early in the process the project leader talked about creating the ordering unit that later on would have the responsibility to act as orderer against the external provider. The reason for making this suggestion was that this unit would then be familiar with the outsourcing deal and it would be easier to implement the new structure of the organisation and the outsourcing deal. The project leader wanted that the first step in doing this should be to appoint one person as responsible for this new unit. The EffectIT steering committee gave the permission and said that the person should be appointed as soon as possible. However, it took almost seven months before this was done. During this part of the project there existed different opinions whether outsourcing was the way to go or not. The different opinions existed in the steering committee as well as among other MeLo stakeholders. In the steering committee for EffectIT there were active spokesmen for outsourcing not wanting to examine possible drawbacks as well as active spokesmen against outsourcing not wanting to admit there could be outsourcing benefits. This resulted in that the governance and management of the EffectIT initiative become somewhat strange, and some of the members of the EffectIT steering committee acted in what could be seen as self-interest. In addition to this, the responsible executives at different units tried to affect the project and wanted to have specific solutions for their own applications. The external consultancy appointed for EffectIT was one of the most active outsourcing spokesmen. This meant that the external consultancy organisation wanted to restrain the obstacles and the drawbacks with outsourcing. The outsourcing project was part of EffectIT and it was governed by the main project leader group and the EffectIT steering committee. The project leader for this was at the same time project leader for three other projects and additionally had a work task in the line organisation. This resulted in that the outsourcing project did not get the attention it needed—not even in the steering committee. The EffectIT steering committee only made necessary decisions and did not have the time to get acquainted with the work in the outsourcing project. The project leader's possibility to inform and have access to persons on higher levels in the organisation was thereby limited. The work load in the project was too high given the resources dedicated to the project. This resulted in that the analysis and reflections did not have the focus it demanded; and the structure of the tender invitation became too superficial and the entire work had to be done again. Afterwards it was found out that if this structure had been reflected upon and if it had been changed it had been possible to use it as a base for the contract. However, when the project leader realised this he made the decision not to change the structure of the invitation of tender. The reason for that was that he judged that if they did that they should not be able to deliver the invitation of tender at the decided deadline.

Tender invitation

The next step in the project was *tender invitation*. This step consisted of three main activities: 1) *construction of a package with additional information for the invitation of tenders*, 2) *answering of questions from possible providers*, and 3) *planning and preparation for the evaluation of tenders*. At this stage of the project it was already known that an additional package of information was needed. The reason for this was that the EffectIT steering committee made a “late” decision that two additional systems and telephony should be part of the request for tenders. It was also found out that there existed another data centre and that there were several servers at that location that ought to be a part of the outsourcing project.

There were questions from possible providers after one week. The project group expected to get questions, but the amount of questions was heavily underestimated. During this phase there were 230 questions of different dignity and complexity. It was not possible for the project members to answer the questions without additional information and help from employees at the different BUs. The BU that was most needed for this was the ICT BU, who had been negative to the project from the start. However, at this stage this negativity had changed and the ICT BU was more positive. The problem of answering questions had also got the attention among the EffectIT steering committee and the executives of the ICT BU took some actions with implementing networks of contacts between the project and the BUs, but also by improving the support for the project. Despite this, the situation was quite chaotic and the project had difficulties in keeping deadlines and to provide possible providers with good service so that they could submit tenders with the right content.

The plan and preparation for tender evaluation was seen as an important step which consisted of creating an organisation that had the necessary competencies and resources for doing high-quality evaluation. The evaluation was planned to take part during one month including presentations done by possible providers. For the evaluation work 45 employees in ten different specialist teams were recruited. The planning part also consisted of the development of evaluation standards and instructions.

At this time, there were consultants working on the outsourcing project. Some stakeholders thought this was not a good arrangement, and based on an initiative this was terminated. The reason for this was that the consultants were employed by a consultancy working with outsourcing. Although, this consultancy was not one of the potential providers they were competitors with potential providers. This could affect the potential providers in their openness and in their bids. Another reason was that the project group wanted to have openness in the evaluation and did not want to have problems with the tender secrecy. The project was at the time understaffed and there was a lack of assistant project leaders. A “new” consultant was appointed to this role by the EffectIT project leader without discussing this with the project leader for the outsourcing project. At the same time the project leader for the outsourcing project appointed a colleague to an assistant project leader role. The collaboration between these two assistant project leaders did not work and their roles and responsibilities became unclear.

At the end of this step the evaluation group was structured, prepared and trained for its work task. The project also changed localisation as it wanted to be secure that it could conduct the next step without risking the security. The open office that had hosted the project so far was not suitable for the next step.

Evaluation of tenders

The total time for the next step, *the evaluation of tenders*, was decided to be two months. However, though the time period was during Christmas and New Year the actual time became somewhat less. There were four main activities in the step: 1) *evaluation of tenders*, 2) *develop a “short-list”*, 3) *the start of preparing the contract*, and 4) *preparation of due diligence*.

The evaluation of tenders was made during the first four weeks and it was finalised on time. This activity was made in a sequential way. Starting with that the individuals in each team were reading the tenders and formed opinions of the tenders. They were then analysed and reviewed in the teams, and questions were prepared for each potential provider. The next stage was a day long presentation by each of the potential providers. The final stage of this activity was to make an updated analysis and a judgement with a motivation for why the teams evaluated as they did. The result from the evaluation activity was then put together and analysed in a smaller group. The role of this group was to develop a short-list. At this stage in the project there were six potential providers. Two of these could be dismissed easily because they did not fulfil several of the demanded criteria. The goal was to have two providers on the short-list. To be able to make the decision more information from the providers was needed. The evaluation was complicated because, for example, the providers had different strengths and weaknesses. Also, the different providers had misunderstood the invitation or had interpreted the invitation differently. This was most apparent when it came to different meanings of hosting. This made it hard to compare the different tenders on costs as well as how they planned to execute the services in the future. There were two providers that were dismissed at this stage; both were dismissed because of their weak economic and financial status. One of the providers also had a size that if they should be a provider to MeLo had meant that

MeLo's part of the provider's total turnover should have been approximately 80 per cent. This was seen as too risky. The result of this work was that a short-list with two providers were presented. The EffectIT steering committee then decided that the work should continue with these two. This meant that the due diligence could start.

The next activity in this step was to prepare the contract. There was a decision made that stated that MeLo should present their proposal for contract and that this proposal should guide the negotiation. During the time for the development of the invitation of tender it was realised that there was a need for a clearer description of what the hosting part consisted of. It was also found that there was an unclear description of what services that was demanded. It was also found that the proposal needed to be developed so that it was juridical grounded. All this resulted in that the proposal became a whole new document with a new structure and partly a new content. However, there was still a high level of insecurity regarding what MeLo needed and demanded in the future.

Already in the phase of invitation of tender the due diligence had started. However, at this stage this was intensified and focussed on showing all material that the providers needed to be familiar with to have a good picture of the "reality". This was a hard task because information and documents were spread over the entire organisation and it was hard to know where it could be found.

At this point in the outsourcing project the project got its own steering committee. It was still part of the EffectIT project. For the project leader in the outsourcing project it was strengthening to get greater attention and support as well as the possibility to make decisions faster. The new steering committee was put together to give support and to take decisions without long preparation time. This committee meet once a week as long as there was a need. A new assistant project leader was appointed. This time the project leader made the decision himself. This led to that the collaboration between the project leader and the assistant project leaders worked very well.

Due diligence and Agreement proposals

The next step in the project, that took two months, consisted of two activities: 1) *to conduct a due diligence with the two potential providers from the short-list*, and 2) *to create the proposal of agreement*.

The conduct of due diligence meant that the providers were given full access to all necessary information. They got access to a room with computer facilities and all necessary information and documentation covering inventory, agreements, contracts, descriptions over systems and so on. The providers also had the possibility to visit all data centre used and to interview employees. The due diligence resulted in more questions from the providers which the project and the BUs tried to answer. The ambition was to have full openness during this activity. The only things that not were open to the providers were the list of employees that were supposed to change employer, and some telephony and data communication agreements. The latter were classified as too sensitive information.

The work with developing the proposal agreement continued and it was found that the content of the agreement did not become such a hard task except for the information regarding the hosting of software applications. This part of the proposal was especially hard because it was found that the original description was not good enough. There was an appendix constructed that aimed at solving this, but there still existed some uncertainty if this was the most ideal description and if the proposed model for fee payment was the best solution. MeLo wanted to have a model for the fee and the services that reflected what was considered "normal" in a competitive market. However, the project did not find any suitable model for hosting of software applications.

The work during this phase was very intensive, but well-structured and well-managed. To develop a proposal that both those working with the proposal and those who should work with the negotiation could agree on took longer than expected. There were some uncertainties regarding the quality of the presented proposal.

Negotiation.

The next step in the outsourcing project was the negotiation with the providers. The step consisted of three activities: 1) *negotiation preparation*, 2) *final negotiation*, and 3) *the delivery to the provider that were finally chosen*.

After the distribution of the proposal of agreement to the two providers, they got the opportunity to prepare for the final negotiation by getting more familiar with the proposal and to ask questions and make comments. They were expected to state the price of the demanded services. They were also expected to carefully tell which parts of the proposal they did not accept and what parts they wanted to negotiate. The parts that were not commented on were supposed to be accepted. The providers returned answers on the proposals with comments on the parts that they wanted to discuss. The comments and the demanded price for the services gave a good overview of the two providers and their different positions before the final negotiation. After one month of preparation the EffectIT steering committee decided to give the project the right to start the final negotiation with the two providers. The negotiation took place at an external law firm. The group that did the negotiation consisted of two

purchasers, an internal lawyer, two external lawyers and one person from the ICT BU. The group was lead by the purchasing executive of IT. In addition to these persons the group was supported by employees that had expertise knowledge regarding the area that were discussed at the moment. The final decision was made a week before the contract was signed and the provider that was chosen was chosen based on the outcome of the negotiation.

The documentation regarding the transfer of the resources was polished and a project that was supposed to handle the transfer was constructed. The ordering unit that was aimed to be started already in the first step was finally finalised and started to do its work. From that group there were some objections about the agreement, namely about the level of services that were supposed to be delivered. But, it was too late to make any adjustments at this stage. The most critical point was to transfer as much information about the agreement as possible.

During the whole project there were attempts to try to update the entire organisation about the project, for example, there were a Q&A site on the intranet. There were also one person appointed to be the linkage between the project and human resource questions. The questions that were supposed to be answered was about rules and rights regarding employment.

The executive committee and the board of directors made the following decision during the time for the project: the executive committee made the decision to start the purchasing part in June 2002, in March 2003 the board of directors made the decision to give the President the right of signing an outsourcing deal. In June 2003, the executive committee made the decision about choosing the proposed provider and made an approval of the proposed contract.

The signed contract was an outsourcing contract with the runtime of six years. It was decided that 180 employees would be transferred from MeLo to the provider. There are possibilities to break the contract if delivered services are not fulfilling the contract. The contract is a document that consists of around 800 pages. This document was an entirely new document; it was found out just before the time for contract signing that the earlier version that had been produced during the project was not good enough. The reason was mainly that the information had been misleading and that there was missing information about what services the organisation wanted and needed. After the contract was signed the implementation of the new organisation started and it can be said that there were some problems. These problems resulted in that the organisation started to implement information technology infrastructure library (ITiL).

DISCUSSION

The description of the outsourcing decision project shows some problems that the project had to deal with. The project was "forced" to adjust the original project plan several times. One of these adjustments was actually made more or less directly at the start of the project. This change was to make a research of the outsourcing market. The reason for doing this was that the appointed project leader saw some uncertainties about the aim of the project. The aim of the market research was also to be able to prepare a clearer invitation of tender. But, it is questionable if this was fulfilled. The market research led to that the whole outsourcing project was questioned. The uncertainty and ambiguity led later to problems related to different views of what the project was about. A better way of doing this had probably been to do the market research before the outsourcing project started. In this step of the process also the formulation and use of business case raised the same problem. And the problem was that the different views of the decision and the discussion that these two activities generated made that the aim of the project become unclear and the commitment and engagement in the project decreased. It can be suggested that the project as such could have benefited a lot if these two activities had been made before the actual start of the project.

Analysing the decision process it can be seen that there was already at the start of the project an uncertainty regarding the aim of the project. To some extent this can be related to irrational decision-making (Brunsson 1985) or decision-making under bounded rationality (Simon 1997). Sourcing decisions are strategic decisions having a lot of uncertainty and ambiguity. A fundamental issue to understand is: what are the purposes of different decisions and decision processes? To address the issue we can use Brunsson's (1989, 2000) alternative interpretations of decision making. The common view is that the purpose of decision making is to make a choice (Brunsson 1989, 2000). Brunsson proposes three alternative purposes of organizational decision-making: 1) decision making as mobilizers, 2) decision making as responsibility allocation, and 3) decisions as legitimization. Analysing MeLo's decision process we can argue that the purpose of the decision to do the marketing research and the decision to develop and use the business case was, in part, to legitimize a decision that already had been taken, namely to legitimize the decision to outsource. It can also be claimed that the purpose was to increase the commitment. However, when analysing the rest of the process it reveals that it instead resulted in a higher degree of uncertainty and ambiguity.

The next major problem that arose was the low commitment for the project leading to a lack of support for the outsourcing decision. The low commitment was found at all levels of the organisation, but the commitment was

lowest among those who saw outsourcing as a threat to their employment. How to deal with this is tricky and it is not obvious how to deal with it. However, it would probably have helped a lot with a clearer articulation of why the project started as well as more information about what can happen after the decision and during the implementation. When analysing the following steps in the process we see that the commitment changed dramatically when the ones who were supposed to be affected by the outsourcing decision realised how it would affect their situation.

Another thing that affected the process was the delay of the start of the ordering unit. Already in the first step of the project the project leader wanted to start the development of the unit that later on would act as ordering unit against the external provider. However, because of lack of resources in combination with different perceptions of outsourcing benefits and drawbacks the ordering unit did not materialize. Despite the fact that it already was decided that the organisation should outsource.

In the next step, the tender invitation, the problem with the unclear aim of the project continued. First, the aim of the project expanded, and second, it was found that there existed servers in the organisation that not had been part of the project so far. This is related to IT governance (Weill & Ross 2004) and problems related to governance and/or control of ICT resources. Had there existed well-developed IT governance and management both the problem with additional functions as well as the problem of discovering more servers could have been avoided. Also the problem with the extensive amount of questions from the potential providers is related to weak governance as well as to the roles and responsibilities of the assistant project leaders—the later are related to project governance and management.

The next two steps in the process—evaluation of tenders, and due diligence and agreement proposals—were the steps with the slightest problems. The reason for this was probably that when it was time for these steps the aim of the project had become much clearer and the commitment among involved personnel had increased a lot. However, the problem that had the greatest impact was the problem with misleading information. This can be tracked back to the problems described earlier, namely the unclear description of the aim of the project and the weak governance and management which made it hard to present the “right” information to potential providers.

Also, the final step, the negotiation, did not result in any new major problems. However, the problem with the unclear aim of the project and the problem of providing the “right” information at the different steps in the process earlier led to that a “new” document had to be created before the contract could be signed.

CONCLUSIONS

The outsourcing decision project described had the starting point in that the CEO and the Board thought that IT had to be more cost effective. When analysing the outsourcing decision process it seems clear that the organisation (read, the CEO and the Board) had decided on outsourcing before the outsourcing decision project started. Despite that a lot of persons in the organisation were not convinced. The aim of the outsourcing project was not clear enough and this raised a lot of problems in the process. Based on our case study, two conclusions about outsourcing decision projects can be made.

First, it is extremely important in an outsourcing decision project that the reason for starting the process is clear and that the aim of the project also is clear. If this is not the case the process as such will have to deal with a high level of uncertainty and ambiguity which probably lead to decreased commitment. This is also dependent on having an “agreed” and shared view of what the project is about. Defining and describing the relations between hosting, maintenance and development are necessary to do in an outsourcing project. Doing so means that there is agreement on what the sourcing decision is about. This is extremely important in order to have commitment on the outcome from the project as well as having trust in the project during its run time.

Second, it can be concluded that having well developed IT governance and management is also important for the success of the process. This includes that the decision-makers know what software applications that are used in the organisation today, how these are hosted, maintained and developed. IT operations measures and figures are also needed. This knowledge should exist before an outsourcing decision project starts.

When analysing the outsourcing decision project at MeLo it is found that a lot of the problems are related to time, in the form of delays in presenting results, and costs in the form of the extra activities that were forced to be done. These problems are related to the problems described above. First, it is quite clear that there were different hosting definitions and these different definitions made it unclear what the project was about and thereby the outcome of the project became unclear. This certainly influenced the commitment of the project as well as the outcome of the project which made the project harder to manage. It also led to that the project plan had to be rescheduled and that the costs for the project increased. Second, the project also shows that there were unclear descriptions of how the hosting was made in the organisation. Those involved in the project did not have the right information about the current IT operations. This can to a great extent be compared to IT governance (Weill &

Ross 2004) and relates to that the organisation had a weak control over what the IT-unit were doing. Also this resulted in that the project plan had to be rescheduled and that the costs for the project increased.

It can be argued that had there been a clear and concise description of what the project was about a lot of the difficulties could have been avoided. In this case the clear and concise description that was lacking was about the meaning of hosting. When analysing the project it is quite clear that there are different meanings of what the decision was about, both among executives as well as among the employees that are influenced by the decision but also among the external providers that were supposed to deliver the services needed in the future. The different meanings as such can be described as different understandings of what development, maintenance and hosting are and what activities that belong to each of these. The risk of having this unclear view of “what the decision” is about delays the project and makes it more costly. But more importantly, it can also make that the relation between the provider and the customer becoming harder to manage, because it makes it more unclear what services are supposed to be delivered and what services that can be expected.

This study opens up for a number of further studies. Although, we tentatively drew some conclusions, it is quite clear that further intensive and extensive studies of outsourcing decision making processes are required. This would include longitudinal and detailed process studies as well as quantitative variance studies. This study has it focus on the decision making process and we intend to study the implementation of the outsourcing decision. Hence, being able to link decision making process, decision (outcome), implementation, and outcome of the implementation. From a practical point of view it would be interesting to see in what ways gained knowledge can be used to guide the governance and management of IT outsourcing decision processes.

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